Based on the analysis, the following recommendations were made to the committee by Mr. Barnes:

Recommendations

Adopt the percentages of merger consideration shown in *Exhibit VI* of the HayGroup presentation. This produces highly competitive awards and encourages the executive team to maximize the merger consideration. The final decision is not totally driven by the merger consideration, as less quantifiable social issues are also very important. But to be competitive, as is seen in the Cerulean transaction, the awards should be consistent with *Exhibit VI.*

Based on the 2000 Executive Compensation Advisory Services (ECAS) Survey of Merger and Acquisition Retention Awards, the following retention bonuses are recommended:

Position	Retention Bonus
SVPs	1.0 x Base Salary
Selected VPs	1.0 x Base Salary
Others Selected	0.5 x Base Salary

These bonuses are intended to retain the executives for the 18-24 months involved in a typical merger. The bonuses approximate the Median (50th Percentile) of the ECAS Survey for retention awards. This survey has 130 organizations in it, and all have gone through a recent merger. They are mostly for-profit companies in a variety of industries – including health care. CareFirst is generally in the middle of the survey group in terms of revenue. Further details concerning this survey are shown in *Exhibit VIII.*

Assuming a merger consideration of $1.0 billion and maximum payouts, it is recommended to have the following awards for *all* key executives:

Number	Title	Award
1	CEO	$7,000,000
6	EVP	$12,000,000
6	SVP	$1,319,811
20	VP	$3,138,757
34	Director	$1,653,505
67		$25,112,073

The awards for the CEO and the EVPs vary with the merger consideration. The others are based on multiple of base salary and not subject to change.

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The total amount represents 2.5112% of the merger consideration. Cerulean awarded $30,027,030 (4.2896% of the merger consideration) to its key executives. In addition, Cerulean awarded another $17,862,970 to other employees. In total, Cerulean awarded $47,890,000 (6.8414% of the merger consideration) in merger retention bonuses.

Following this thorough analysis and presentation, the committee approved the recommendations. Mr. Joe Haskins requested that Mr. Barnes and Mr. Mark Muedeking develop a presentation to be shared at the April 26th Board of Directors meeting. The committee will review this presentation during the April 26th Compensation Committee meeting.

Respectfully submitted,

Sharon J. Vecchioni

Merger Incentive and Retention Plans

CareFirst BlueCross BlueShield Board of Directors

April 26, 2001

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PIPER MARBURY RUDNICK & WOLFE LLP

HayGroup

Purpose

- Align the Interests of Management with the Interests of the Stakeholders
- Focus the Attention of Management on Maintaining and Maximizing Value for Stakeholders
- Ensure that Management has the Necessary Incentives to Drive the Sale Process through Conclusion for the Benefit of the Stakeholders

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Broad Array of Compensation Data Analyzed

- Total Direct Compensation of Top 5 Executives at Trigon and WellPoint Analyzed - Both Companies Have Aggressive Long-Term Incentives
- Cerulean Companies, Inc. (formerly BCBS of Georgia; merged with WellPoint) is Most Similar to CareFirst. Merger Retention Bonuses of Executive Officers Reviewed
- Compilation of 13 Health Care Mergers Prepared by Piper Marbury Rudnick and Wolfe LLP Analyzed
- 2000 Executive Compensation Advisory Services Survey of Merger and Acquisition Retention Awards Reviewed. This Survey has 130 Organizations in it - 23% are Financial Services or Healthcare Companies

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